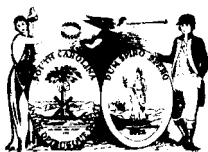


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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June 11, 2001

Ms. Sybil B. Neaves, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

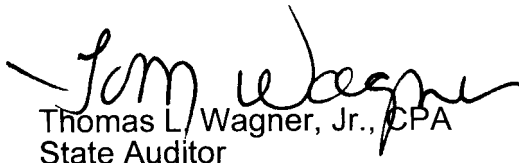
Re: AC# 3-MSP-J8 – Magnolia Manor – Spartanburg, Inc.

Dear Ms. Neaves:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

MAGNOLIA MANOR – SPARTANBURG, INC.

SPARTANBURG, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-MSP-J8**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

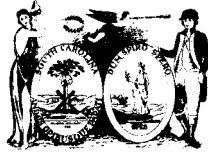
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 1999	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2000	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1998	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 14, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Spartanburg, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

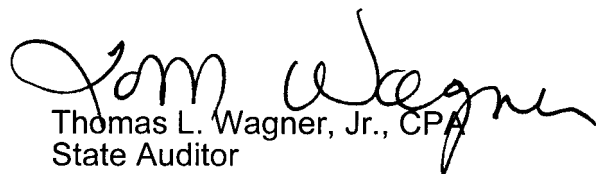
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Spartanburg, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Spartanburg, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 14, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

MAGNOLIA MANOR - SPARTANBURG, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-MSP-J8

10/01/99-
09/30/00

Interim reimbursement rate (1)	\$91.38
Adjusted reimbursement rate	<u>86.41</u>
Decrease in reimbursement rate	\$ <u><u>4.97</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

MAGNOLIA MANOR - SPARTANBURG, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MSP-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.15	\$47.61	
Dietary		9.39	10.24	
Laundry/Housekeeping/Maint.		<u>7.76</u>	<u>8.89</u>	
Subtotal	<u>\$4.67</u>	58.30	66.74	\$58.30
Administration & Med. Records	<u>\$2.45</u>	<u>8.94</u>	<u>11.39</u>	<u>8.94</u>
Subtotal		67.24	<u>\$78.13</u>	67.24
<u>Costs Not Subject to Standards:</u>				
Utilities		1.45		1.45
Special Services		.95		.95
Medical Supplies & Oxygen		3.38		3.38
Taxes and Insurance		1.41		1.41
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$74.47</u>		74.47
Inflation Factor (3.00%)				2.23
Cost of Capital				6.15
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.45
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.37)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.06</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$86.41</u>

MAGNOLIA MANOR - SPARTANBURG, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1998
 AC# 3-MSP-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,419,394	\$ 440 (5)	\$ 25,983 (6) 1,244 (6)	\$1,392,607
Dietary	305,267	655 (1) 14,530 (2)	2,720 (6)	317,732
Laundry	127,099	2,156 (7)	48,514 (2) 280 (6)	80,461
Housekeeping	116,091	-	1,904 (6)	114,187
Maintenance	68,535	-	566 (6)	67,969
Administration & Medical Records	400,813	4,177 (1)	22,084 (2) 28,497 (3) 5,965 (6) 354 (6) 45,563 (7)	302,527
Utilities	48,941	-	-	48,941
Special Services	42,511	-	7,272 (4) 2,140 (6) 1,092 (7)	32,007
Medical Supplies & Oxygen	117,509	15,106 (4)	4,840 (1) 9,066 (2) 4,200 (9)	114,509
Taxes and Insurance	47,642	-	-	47,642
Legal Fees	1,328	-	-	1,328
Cost of Capital	211,599	926 (5) 2,281 (8)	6,658 (7)	208,148
Subtotal	2,906,729	40,271	218,942	2,728,058
Ancillary	50,393	8 (1)	-	50,401

MAGNOLIA MANOR - SPARTANBURG, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MSP-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Non-Allowable	181,103	65,134 (2) 28,497 (3) 41,156 (6) 51,157 (7) <u>4,200 (9)</u>	7,834 (4) 1,366 (5) 2,281 (8)	359,766
Total Operating Expenses	<u>\$3,138,225</u>	<u>\$230,423</u>	<u>\$230,423</u>	<u>\$3,138,225</u>
Total Patient Days	<u>33,843</u>	<u>-</u>	<u>-</u>	<u>33,843</u>
Total Beds	<u>95</u>			

MAGNOLIA MANOR - SPARTANBURG, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MSP-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Dietary	\$ 655	
	Administration	4,177	
	Ancillary	8	
	Medical Supplies & Oxygen		\$ 4,840
	To properly classify expenses		
	DH&HS Expense Checklist		
2	Nonallowable	65,134	
	Dietary	14,530	
	Laundry		48,514
	Administration		22,084
	Medical Supplies & Oxygen		9,066
	To disallow expenses not		
	adequately documented and		
	reclassify expenses to the		
	proper cost centers		
	HIM-15-1, Section 2304		
	DH&HS Expense Checklist		
	State Plan Attachment 4.19D		
3	Nonallowable	28,497	
	Administration		28,497
	To adjust Premiere fees		
	to allowable		
	HIM-15-1, Section 2304		
4	Medical Supplies & Oxygen	15,106	
	Therapy		7,272
	Nonallowable		7,834
	To remove special (ancillary)		
	services reimbursed by Medicare		
	State Plan, Attachment 4.19D		
5	Fixed Assets	194,001	
	Restorative	440	
	Cost of Capital	926	
	Accumulated Depreciation		187,957
	Other Equity		6,044
	Nonallowable		1,366
	To adjust fixed assets and related		
	depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

MAGNOLIA MANOR - SPARTANBURG, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MSP-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	41,156	
	Nursing		25,983
	Restorative		1,244
	Dietary		2,720
	Laundry		280
	Housekeeping		1,904
	Maintenance		566
	Administration		5,965
	Medical Records		354
	Therapy		2,140
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	51,157	
	Laundry	2,156	
	Administration		45,563
	Therapy		1,092
	Cost of Capital		6,658
	To adjust Magnolia Group, Inc. - Home Office; Magnolia Group, Inc. - Laundry; and IHS expense HIM-15-1, Sections 1000 and 2304 State Plan, Attachment 4.19D		
8	Cost of Capital	2,281	
	Nonallowable		2,281
	To adjust capital return State Plan, Attachment 4.19D		

MAGNOLIA MANOR - SPARTANBURG, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MSP-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable Medical Supplies & Oxygen	4,200	4,200
	To post Medicare adjustment to remove overaccrual HIM-15-1, Section 2304		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$424,424</u>	<u>\$424,424</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MAGNOLIA MANOR - SPARTANBURG, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MSP-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>95</u>
Deemed Asset Value	3,337,350
Improvements Since 1981	196,124
Accumulated Depreciation at 9/30/98	<u>(820,123)</u>
Deemed Depreciated Value	2,713,351
Market Rate of Return	<u>.063</u>
Total Annual Return	170,941
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	170,941
Depreciation Expense	40,709
Amortization Expense	239
Capital Related Income Offsets	(3,741)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	208,148
Total Patient Days (Actual)	<u>33,843</u>
Cost of Capital Per Diem	\$ <u><u>6.15</u></u>

MAGNOLIA MANOR - SPARTANBURG, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MSP-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.70
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.69</u>
Reimbursable Cost of Capital Per Diem	\$6.15
Cost of Capital Per Diem	<u>6.15</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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